



Department of Energy

Washington, DC 20585

June 8, 2005

MEMORANDUM FOR: ASSOCIATE ADMINISTRATOR FOR MANAGEMENT
AND ADMINISTRATION, NNSA
FIELD CHIEF FINANCIAL OFFICERS
Helen O. Sherman
FROM: HELEN O. SHERMAN, DIRECTOR
OFFICE OF FINANCIAL MANAGEMENT
SUBJECT: FY 2005 ENVIRONMENTAL LIABILITY ESTIMATES

The purpose of this memorandum is to provide guidance for the development of the environmental liability estimates for the following major components to be reported in the FY 2005 Consolidated Financial Statements: (1) Office of Environmental Management's (EM) project baseline life-cycle cost estimates; (2) restructured environmental liabilities; and, (3) active and surplus facilities cost estimates. Due to the accelerated reporting requirements, the 3rd quarter financial statements must include fully updated environmental liability estimates with footnote disclosures. Yearend reporting requirements remain the same. Accordingly, please develop your FY 2005 liability estimates using the following guidance:

EM Project Baseline Summaries (PBSs)

Field offices should update their environmental liability estimates in the accounting system to reflect project life cycle cost estimates. These liability estimates must be updated for subsequent life-cycle changes (i.e., changes after the Integrated Planning And Budgeting System cut-off date). The FY 2005 environmental liability estimates should be included in the 3rd quarter submissions along with footnote disclosures. These estimates and footnote disclosures will be updated as necessary and included in the September submissions. Please provide copies of your footnote disclosures to the Office of Financial Policy within 5 days after each submission.

Restructured Environmental Liabilities

The restructuring of the EM program involves the transfer of activities/functions to other Departmental programs. At some sites, the EM liability estimate to be recorded for FY 2005 will have been adjusted for these transfers. The identification of and proper recording in the FY 2005 financial statements of any environmental liability associated with these transferred activities/functions are crucial. There may also be estimated costs for some transferred activities/functions included in the environmental liability in prior years that will no longer be classified as an environmental liability (e.g. infrastructure costs, site support services). A narrative crosswalk describing these transfers is to be submitted to the Office of Financial



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Policy with your 3rd Quarter environmental liability disclosure footnote.

Active and Surplus Facilities

The Active Facility Database Collection System (AFDCS) was opened for field input in February. Headquarters is currently reviewing the data submissions after which the liability modeling process will be run. Updated active facilities liability estimates will be available by June 30, 2005, and should be included in the 3rd quarter submissions. In September, sites will be asked whether there have been any significant changes, e.g. facilities remediated. If significant changes have occurred, the modeling process will be re-run and any resulting changes to the estimates will be included in the year-end reporting submissions. For those sites that develop estimates outside of the AFDCS, estimates must be updated to reflect current information as necessary. These estimates must be adjusted to FY 2005 constant dollars. In this regard, the beginning balances should be multiplied by the inflation factor of 1.0258. This factor is based upon deflators listed in Table 1.3 of the Historical Tables of the FY 2005 Budget of the U.S. Government. Supporting documentation for site-developed estimates must be maintained and is subject to audit review.

Field offices are responsible for ensuring that there is sufficient documentation to support the environmental liability estimates. Support for the assertion that all contaminated facilities are included in the estimates, approaches used for removing duplicate costs, and any assertion of immateriality with regard to updating the estimates, must also be documented. A determination of the need for (1) an adjustment to the estimate as a result of conditions that existed at September 30, 2005, (i.e., preexisting conditions) or (2) a footnote disclosure for conditions that arose after September 30, 2005, must be made for any life-cycle cost estimate updates that occur or are in process after September 30, 2005, that are expected to materially affect the estimates.

If you should have any questions on this guidance, please contact Dean Olson at (202) 586-4860, or if your staff has questions they can contact Lois Jessup at (202) 586-3959.